Government of
Saskatchewan

2006
Annual Report

Municipal Employees' Pension Commission

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This annual report is available in electronic format at **www.peba.gov.sk.ca/mepphome.htm**

Letters of Transmittal

His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2006.

Andrew Thomson
Minister of Finance

The Honourable Andrew Thomson
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2006.

Bonnie Ozirny
Chair

Chair's Comments

It is my privilege to chair the Municipal Employees' Pension Commission.

The Commission continues its efforts to direct the administration of the Plan and manage the assets in the best interests of its members. This is a report on those efforts for 2006.

The Commission's multi-year strategic plan allows the Commission to focus on making decisions for setting a clear direction for the Plan. The Strategic Plan sets out initiatives and activities in Effective Communications, Plan Governance, Risk Management, Service Delivery and Plan Design. This report provides information on accomplishments and planned activities under each of these initiatives.

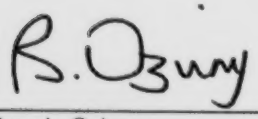
In managing plan assets, the Commission reviews the performance of the MEPP Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The Commission also measures the performance of individual investment managers against the objectives set for their individual portfolios. The Plan remains fully funded with a small surplus. This is no small accomplishment.

Over the past four years, the Fund outperformed the benchmark with an annualized return of 13.0%. In 2006, the Fund exceeded the benchmark with an annual return of 13.6%. Information on the Plan's Investments, Investment Objectives and Fund Performance are provided in this report. A section, Financial Highlights, is new to the report and provides an overview of fund performance over a 10-year period.

The number of active members in the Plan increased in 2006. As expected, with the closing of the early retirement window in 2005, the number of retirements decreased. This report provides information about the Cash Flow Forecast, Operating Expenditures, Pension Payments and plan membership in the Plan Expenditures and Statistics section.

This annual report represents another step forward in providing detailed information. This continues to reflect an increased emphasis on Commission accountability.

On behalf of the Municipal Employees' Pension Commission, I present the 2006 Annual Report of the Municipal Employees' Pension Commission.



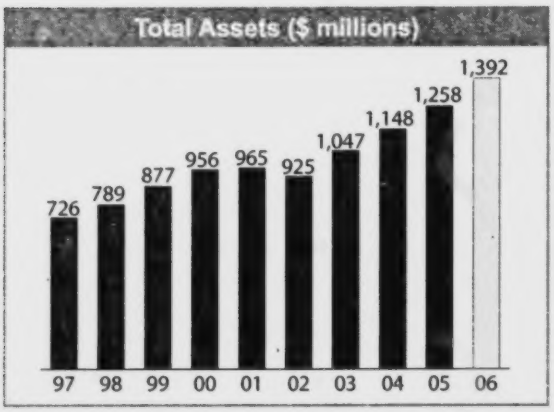
Bonnie Ozirny
Commission Chair

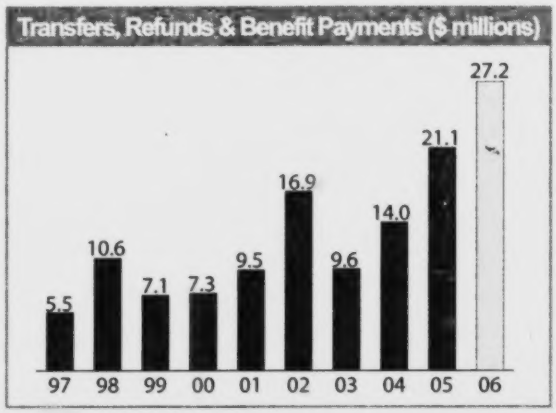
Financial Highlights

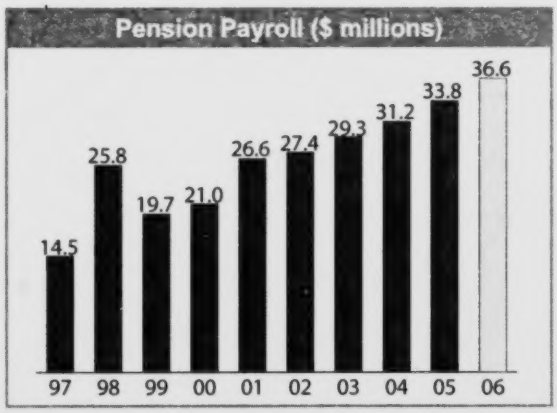
Total MEPP Fund Investment Performance

Annual Returns (%)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Total Fund Real Return	13.6	12.1	11.4	14.9	(2.1)	2.6	10.4	12.7	10.3	17.7
Benchmark	12.9	10.6	9.8	14.5	(6.1)	(3.2)	6.0	13.5	9.9	13.8
Rolling 4-year Average Returns %										
Total Fund Real Return	13.0	8.9	6.5	6.2	5.7	8.9	12.7	14.9	15.7	12.7
Benchmark	12.0	6.9	3.4	2.5	2.3	6.4	10.8	13.7	14.9	12.0







Comparative Investment and Administration Costs (000s)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Administration costs	2,540	2,328	2,051	2,643	2,660	2,068	2,279	2,251	1,691	1,125
Custodial fees	128	131	128	164	95	96	104	86	86	71
Investment Management fees	3,237	2,708	2,296	2,001	1,996	1,767	1,802	1,596	1,270	1,157
Totals	5,905	5,167	4,475	4,808	4,751	3,931	4,185	3,933	3,047	2,353

Introduction

The Municipal Employees' Pension Plan (MEPP) is a 'defined benefit' plan, which means that pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service.

In this defined benefit plan, a fixed percentage of salary is contributed yearly by participating members. Employers match these employee contributions.

The amount of pension a member will receive is not directly related to investment returns. Good investment returns are necessary to secure the Plan's ability to meet its current and future obligations to pay benefits and are the major contributor to surplus.

Under normal retirement rules, most members may retire and receive a pension with no reduction if their age plus eligibility service equal at least 80; or, if they are 65 years of age. Most members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service. Designated firefighters and police officers may receive an unreduced pension if their age plus eligibility service equal at least 75, they are 55 years of age, or have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age plus eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the *Rural Municipal Secretary Treasurer's Superannuation Plan* was established in 1941. In 1949, the *Urban Employees' Superannuation Plan* was established. In 1959, these two plans amalgamated to form the *Municipal Employees' Superannuation Plan*, which was converted to the current plan in 1973.

MEPP is registered under the Income Tax Act (Canada) and is governed by *The Municipal Employees' Pension Act* and related Regulations; and the *Pension Benefits Act, 1992* and related Regulations.

The Plan holds over $1 billion in total assets. MEPP's membership consists of over 15,500 members and 3,900 pensioners.

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members and beneficiaries.

The Commission has 10 members: Five represent participating employers and five represent employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chairperson and a Vice-Chairperson. At December 31, 2006 the Commission was comprised of the members listed in *Table 1.1* on page 6.

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide administrative services for the Plan. PEBA is part of the Department of Finance, Government of Saskatchewan and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

- Provides pension estimates, estimates on breakdown of spousal relationship and transfer values for members wishing to transfer into MEPP from another pension plan;
- Prepares annual member statements by the end of March of each year;
- Calculates termination and death benefits;
- Prepares statements to members regarding significant Plan events such as termination, death and breakdown of spousal relationship;
- Accounts for all investment transactions;
- Collects members' and employers' contributions; and
- Provides executive management services to the Commission.

Introduction

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act* and *The Pension Benefits Act, 1992* and their related regulations.

In 2006, the Commission paid $2,540,000 for administrative services.

The Commission retains RBC Dexia Investor Services as the Plan Custodian and Hewitt Associates as the Investment Consultant. The Commission also retains the seven Investment Managers listed in *Table 1.5* on page 20.

The Commission's mission is:

To oversee and direct the administration of the Plan and manage the assets in the best interests of the members.

The Commission's goals are:

Communication
Educate and inform plan members, beneficiaries, employers and plan sponsors through clear, timely and relevant communication of their benefits, duties and obligations under the Plan in a responsive and proactive way.

Decision-making principles
Make timely decisions in an open and consultative manner, which adheres to the rules of the Plan and governing legislation, procedural fairness and natural justice to ensure fair and equitable treatment in the best interests of plan members.

Management of assets
Ensure the short-term and long-term solvency of the Plan by developing prudent investment policies which balance rate of return and risk.

Cost-effective Administration
Ensure MEPP members receive cost-effective and efficient pension services.

Responsive to member needs
Ensure an equitable plan design that reflects the diversity of the membership and takes into account pension industry standards, trends and the Saskatchewan environment.

Accountability
Ensure accountability when carrying out its governance responsibilities. In keeping with best practice standards, its fiduciary responsibilities and statutory requirements, the Commission will obtain advice from pension industry experts to meet its fiduciary responsibilities and educational needs; and conduct a periodic self-assessment of the governance framework.

Municipal Employees' Pension Commission Members at December 31, 2006

Name	Position	Appointing Body
Earl Braun	Member	Associations representing Designated Police Officers and Firefighters
Richard Buettner	Member	Saskatchewan School Boards Association
Allan Johnson	Member	Regional Colleges/Regional Libraries
David Marit	Member	The Saskatchewan Association of Rural Municipalities
Carrie McCoshen	Vice-Chair	Trade Unions representing employees who are members of the Plan
Bonnie Ozirny	Chair	Saskatchewan School Boards Association
Ralph Paquin	Member	The Saskatchewan Association of School Business Officials
Orrin Redden	Member	The Urban Municipal Administrators' Association of Saskatchewan
Jim Reiter	Member	The Rural Municipal Administrators' Association of Saskatchewan
Roland Zimmer	Member	The Saskatchewan Urban Municipalities Association

Also serving in 2006: Charles Baillargeon, Keith Schneider and Ron Walter

Table 1.1

Strategic Initiatives

In 2004, the Commission adopted a multi-year Strategic Plan to achieve its stated goals through to 2007.

The Strategic Plan allows the Commission to focus on making key decisions that set a clear direction for the future of the Plan. Annual results are used to assess overall progress toward goals and initiatives and to adjust future plans and activities. Regular reporting allows the Commission to make necessary changes to resource allocations.

The Strategic Plan sets out initiatives and activities for the planning period within five categories:

1. **Effective Communications:**
   to meet the goal of Communication
2. **Plan Governance:**
   to meet the goal of Decision-making Principles and Accountability
3. **Risk Management:**
   to meet the goal of Management of Assets and Cost-effective Administration
4. **Service Delivery:**
   to meet the goal of Responsive to Member Needs
5. **Plan Design:**
   to meet the goal of Responsive to Member Needs and Accountability

1. Effective Communications

The Commission is aware of the importance of effective communication given the complexity of the information being communicated and the large number of relatively small organizations participating in the Plan.

The Commission believes that an appropriate communications plan should:

- Address the needs of plan members;
- Target members at various stages in their plan membership and, particularly, focus on members who are nearing retirement;
- Solicit member feedback and two-way communication with stakeholders; and
- Incorporate the many tools now available to deliver information to members and stakeholders.

The following communication resources are available to employers and members:

- Employer manual
- Employer bulletins
- Employer and employee forms
- Member booklets
- MEPP *Matters* newsletter published twice per year
- MEPP *In-Depth* bulletins
- *Frequently Asked Questions About MEPP*
- *Frequently Asked Questions for Employers*
- Member information presentations
- *Annual Member's Statement*
- Guide to *Annual Member's Statement*

Published materials are available from the PEBA website at www.peba.gov.sk.ca.
Printed copies of these materials may be obtained by telephone, FAX or e-mail request.

Strategic Initiatives

Effective Communications Activities

Activities planned for 2006

- Mercer Human Resources Consulting (Mercer) will provide a summary of information gathered, findings on service delivery and an assessment of member needs for processes and education methods.
- With Mercer's assistance, the Commission will develop and adopt a comprehensive three-year communication plan that will address gaps in the existing communications and identify the resources required to implement the new plan.
  The three-year communications plan will include:
  - A strategy for consulting with members and stakeholders;
  - Tactics for effectively meeting member information and education needs; and
  - Ongoing measurement and evaluation.

Activities accomplished in 2006

Three-year Communications Plan

- The Commission adopted a three-year communications plan with the following initiatives:
  - Develop and communicate a policy on MEPP employer responsibilities;
  - Enhance telephone customer service capabilities;
  - Enhance MEPP's face-to-face presentation program;
  - Assist members with retirement training;
  - Establish a stakeholder consultation process; and
  - Enhance measurement and reporting on MEPP communications.
- Mercer reported on collected information, service delivery and assessments of member needs as part of the three-year communications plan.

Strategic Initiatives

- The Commission approved, in principle, policy papers regarding employer responsibilities and the Plan's role in providing retirement planning information.
- The volume of telephone calls related to customer service were logged to identify specific performance goals and measures.
- Existing MEPP *In-Depth* bulletins were reviewed and revised. Several new bulletins were written. The bulletins were posted on the PEBA website by topic for ease of identification.
- *Frequently Asked Questions* for members were reviewed, enhanced and updated on the PEBA website and linked to the appropriate sources of information.

Communications Strategies

- The Commission approved a communications strategy for employment after retirement dedicated to explaining the intent of the Plan with regard to members becoming re-employed after retirement. The Plan has no provision for retired members to collect allowances and return to their previous positions.
- The Commission approved a communications strategy supporting introduction of the MEPP Employer Electronic Remittance project. This project involves introduction of a method of electronic remittance of contribution information that will occur in a new, secure MEPP employer web.

Strategic Initiatives

Reporting

- Annual letters regarding indexing amounts were sent to members January 24, 2006.
- Annual Member Statements were mailed to members on March 6, 2006. On March 31, 2006 member statements were mailed to members who were on leave or layoff before December 31, 2005.
- On March 31, 2006 the *MEPP Annual Report for 2005* was forwarded to the Clerk of the Saskatchewan Legislative Assembly for tabling. The report was tabled April 27, 2006.

Employer Information

- An employer bulletin explaining the intent, policies and procedures of the Plan regarding employment after retirement was posted on the PEBA website and mailed with a letter to all MEPP employers.
- The bulletin and table on Maximum Pensionable Salary were updated. The bulletin was mailed to affected employers and the table was posted on the PEBA website.
- Updated *Pension Adjustment Guides and Tables* were posted on the PEBA website.
- The annual year-end letter was sent to all employers in December.

Face-to-Face Member Information

- MEPP was represented at three stakeholder trade shows.
- Eight member overview presentations were delivered at five locations throughout Saskatchewan to a total of 191 members.

Newsletters

- MEPP *Matters* newsletters were mailed to MEPP members, retirees and employers in June and early December. A new section, *Pensioner's Corner*, addresses topics of interest to retirees.

Activities Planned for 2007

Strategic Initiatives

- The Commission will finalize policy regarding employer responsibilities and the Plan's role in providing retirement planning information.
- Tracking and measuring of MEPP telephone customer service will continue into 2008. If a full operational review is undertaken it would be agency-wide; therefore, consideration will be given to the time and cost implications of such a review before proceeding.
- Develop channels for increased distribution of MEPP *In-Depth* bulletins. Include appropriate bulletins in new hire and retirement options packages. Conduct regular reviews of bulletins. Build on presentation program by developing a bulletin that targets new members.
- Review member communications; update and revise as required. Seek opportunities to provide enhanced communications that guide members and pensioners through targeted phases of plan membership.

Communications Strategies

- The *MEPP Employer Electronic Remittance Project* will be completed in 2007 with delivery of these communications pieces:
  - Question and Answer sheets for the use of PEBA staff and MEPP employers;
  - An employer bulletin announcing the project; and
  - Updated references in the Employer Manual.
- The *Three-year Communications Plan* started in 2006 and will continue through 2007 and 2008.

Strategic Initiatives

Reporting

- Enhance information provided in the Annual Report.
- Introduce and mail a four-page summary report based on the annual report to members and employers.
- Review the annual letter regarding indexing amounts for pensioners and incorporate additional information.

Employer Information

- Conduct regular reviews of bulletins.
- Re-write, reorganize, reformat and distribute new Employer Manual to all MEPP employers.

Face-to-Face Member Information

- Continue representing MEPP at stakeholder trade shows.
- Continue delivering member presentations when requested by a group of 20 or more.
- Continue promoting presentations in the Plan newsletter and on the PEBA website.
- Build on the presentation program by identifying information of particular interest to new members. Develop a bulletin that targets new members and distribute the bulletin to new members at member presentations.
- Train more staff to provide presentations.
- Have MEPP operations staff attend presentations and trade shows where they can meet and interact with Plan members and employers.

Newsletters

- Publish and mail the plan newsletter, MEPP *Matters*, to members, pensioners, employers, trade union representatives and Commission members in June and December of 2007.

Strategic Initiatives

Seminars, Courses and Other Events Attended by Commission Members in 2006

Registration Fee	Education Events Attended	Registration Fees (Total)
Earl Braun	• Annual Pension Information Session (PEBA) • National Conference (CPBI[1]) • Canadian Investment Institute • Brandes Conference	$2,794
Richard Buettner	• Annual Pension Information Session (PEBA) • National Conference (CPBI) • Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University) • Brandes Conference	$3,919
Allan Johnson	• Annual Pension Information Session (PEBA) • Investment Basics Seminar (CPBI) • Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University) • Brandes Conference	$2,925
David Marit	• Cents and Sensibilities Conference (CPBI) • Brandes Conference	$1,035
Carrie McCoshen	• Annual Pension Information Session (PEBA)	
Bonnie Ozirny	• Saskatchewan Federation of Labour Pension Conference • Annual Pension Information Session (PEBA) • Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University) • Cents and Sensibilities Conference (CPBI) • Brandes Conference	$3,495
Orrin Redden	• Annual Pension Information Session (PEBA) • Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University)	$2,700
Jim Reiter	• Annual Pension Information Session (PEBA) • National Conference (CPBI) • Cents and Sensibilities Conference (CPBI)	$1,772
Keith Schneider*	• Annual Pension Information Session (PEBA) • Canadian Investment Institute	$1,575
Ron Walter*	• Annual Pension Information Session (PEBA) • Annual Spring Seminar (CPBI)	$125

[1]Canadian Pension and Benefits Institute
*Served on Commission for part of 2006

This table is referenced under Plan Governance on page 12

Table 1.2

Strategic Initiatives

2. Plan Governance

Plan governance is the process and structure used to administer pension plans in accordance with legislative requirements and in the best interests of plan members.

The Commission has adopted the following principles using the guidelines established by the Canadian Association of Pension Supervisory Authorities (CAPSA):

- The Commission has a fiduciary responsibility to plan members;
- Governance objectives are established for the oversight, management and administration of the Plan;
- The roles, responsibilities and accountabilities of all participants are clearly described and documented;
- Performance measures are established, monitored and reported;
- Plan administrators have the duty to apply the knowledge and skills needed to meet governance responsibilities (see *Table 1.2*);
- Plan administrators should have access to relevant, timely and accurate information;
- Establish an internal control framework to address the Plan's risks;
- Establish appropriate mechanisms to oversee and ensure compliance with legislative requirements, pension plan documents and administrative policies;
- Communicate the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability;
- Establish a code of conduct and a policy to deal with conflicts of interest; and
- Conduct a regular review of plan governance.

In developing processes consistent with governance principles, the Commission:

- Hires professional investment managers, custodians and plan administrators to provide expertise in managing MEPP;
- Has in place a governance manual with a code of conduct and conflict of interest procedures;
- Monitors plan performance on a quarterly basis and evaluates the performance of investment managers;
- Has implemented a communications plan with communications tools to inform and educate plan members about MEPP; and
- Annually reviews the governance process and conducts a self-assessment.

Plan Governance Activities

Activities planned for 2006	Activities accomplished in 2006
In 2006, the Commission will focus on three governance priorities: • Continue developing policies, including a funding policy and administrative policies; • Arrange an independent review of the adequacy and completeness of information reported to the Commission; and • Review and update the Commission's strategic business plan.	• In reviewing the Policy Manual and identifying gaps in policy, the Commission approved policies for Stakeholder Relations and External Communications, Annualized Salary and Highest Average Salary. • The Commission reviewed the performance and evaluation of the Commission's actuary, investment consultant, administration systems service provider, fund custodian and payroll service provider.

- The Commission reviewed the contracts of the Commission's service providers to ensure adequacy, compliance with the Commission's Acquisition of Services policy and to determine what reporting is currently subject to contract.
- Commission suppliers were evaluated during 2006. All received high ratings.
- The Commission received a consultant's report regarding the adequacy and completeness of information reported to the Commission. The report indicated that, from a governance perspective, the Commission is receiving the appropriate information.
- The Commission reviewed its existing reporting structure and updated its Governance Manual to more clearly outline needed activities and allocation of specific responsibility.
- The Commission completed its self-assessment, which indicated a high degree of satisfaction with the Commission's method of functioning and discharging its governance duties.
- The Commission reviewed and updated its Strategic Business Plan.
- The Commission adopted a three-year communications plan.
- All Commission members signed their Code of Conduct and Conflict of Interest Procedures for 2006.

Activities planned for 2007

In 2007, the Commission will undertake these Governance activities:

- Conduct an annual assessment of the Plan governance program.
- Develop policies as needed.
- Review the effectiveness of the Commission's knowledge and skill development process.
- Conduct a comprehensive review and renewal of the Commission's strategic business plan.

3. Risk Management

The Commission has identified the following potential risks that could adversely affect the operation of the Plan:

- Insufficient assets to meet benefit obligations and instability of contribution requirements;
- Excessive expenses;
- Service provider failures;
- Non-compliance with legislative and common-law requirements;
- Failure to meet the needs of plan members and participating employers; and
- Communications that are incorrect, untimely or inaccurate.

The Commission manages potential risk by developing and implementing these strategies:

- Implementing a Statement of Investment Policies & Procedures (SIP&P). The SIP&P outlines the Commission's investment beliefs; provides for diversification of asset classes, capital markets and investment managers; and, defines a benchmark against which investment performance is measured. Compliance with the SIP&P is monitored independently and communicated to plan members.
- Ongoing actuarial review of the Plan's funded status and contribution requirements. The actuary's performance is evaluated annually.
- An independent audit of the Plan.
- An annual report comparing the administrative costs for public sector pension plans.
- An Acquisition of Services Policy that outlines the requirements for tendering of services and contracts and retention of service providers.
- Performance reviews of service providers.
- A quarterly administration report from PEBA includes reporting of performance in comparison to the standards set by the Commission.

Strategic Initiatives

- Legal counsel retained to consult on issues under deliberation and to review the contracts into which the Commission enters.
- A Business Continuance Plan (BCP) filed by PEBA with the Commission. The Commission also requests verification from all other service providers that they have BCPs.
- A Communications and Stakeholder Relations Policy that specifies the process for external communications.
- An annual review required by the Commission indicating that the Commission's administrator is in compliance with legislative requirements.
- The requirement that Commission members review and sign the Commission's Code of Conduct and Conflict of Interest Procedures annually.
- A policy for training and development for Commission members in *Table 1.2* page 11;
- A periodic checklist of major items identified as necessary for the administration of a pension plan provided to the Commission on a semi-annual basis. The checklist is verification that an activity has been carried out by the Commission and its delegates.
- Formal review and consultation with plan members, participating employers and other stakeholders regarding plan design.

Risk Management Activities

Activities planned for 2006

The Commission will develop and implement risk management initiatives that include:

- A funding policy for the Plan;
- A Business Continuance Plan from PEBA;
- A plan to address gaps in the Commission's risk management strategy including any uncompleted items from the 2005 risk management strategy; and
- A formal review of the MEPP Business Plan.

Activities accomplished in 2006

- The Commission approved the actuarial valuation of the Plan as at December 31, 2005. The Commission's actuary reported that the Plan was fully funded and had no solvency deficiency.
- The Commission reviewed the findings of the audit of the Plan's financial statements for the year ending December 31, 2005.
- The Commission reviewed a Report to Management on internal controls.
- The Commission received an outline for a Business Continuance Plan (BCP) filed by PEBA.
- A business continuity action plan for each of MEPP's non-financial critical business processes has been completed. This includes the identification and documentation of support required in the event of a disaster (personnel, systems, vital records, key interdependencies and the recovery action at an alternate site).
- The Commission reviewed the risk management activities undertaken in 2005 and implemented the 2006 Risk Management Plan to close remaining gaps in the Commission's risk management strategy.
- A funding policy for the Plan is being drafted.
- The Commission reviewed and updated its Business Plan.
- The Commission approved a revised *Statement of Investment Policies and Procedures*.
- The Commission reviewed its investment policy, including its:
  - Primary investment goals;
  - The investment decision hierarchy;
  - Investment beliefs, increasing the investment allocation to restate; and
  - Foreign currency hedging to reduce the risk of exposure to foreign currencies.
- The Commission retained an investment manager to actively manage the Fund's non-North American currency exposure to reduce the risk associated with those currencies.

- Independent confirmation of Investment Manager compliance with the Commission's Statement of Investment Policies and Procedures was reported to the Commission.
- The Commission received and reviewed reports on the investment performance of the Fund and each asset class in relation to benchmarks.
- The spring 2006 issue of MEPP *Matters* contained summary information regarding the investment performance of the Fund in relation to the benchmark for the Fund.
- All Commission members signed their Code of Conduct and Conflict of Interest Procedures for 2006.
- The Commission reviewed the Periodic Checklist.
- The Commission reviewed the contracts of the Commission's service providers to ensure adequacy, compliance with the commission's Acquisition of Services policy and to determine what reporting is currently subject to contract.
- The Commission received quarterly administration reports from PEBA.
- An Inter-Provincial Comparison of Pension Administration Costs was provided to the Commission.
- The Commission retained Mercer Human Resource Consulting to develop a stakeholder consultation process. A draft stakeholder consultation process is in development and will be presented to the Commission in 2007.

Activities planned for 2007

In 2007, the Commission will continue managing potential risk by undertaking these activities:

- Complete development of a funding policy.
- Develop a consultation process to facilitate the communication of funding issues.
- Continue development of a policy manual.
- Conduct a third-party review of the agreement between PEBA and the Commission.
- Completion of PEBA's Business Continuance Plan.
- Obtain a legislative compliance report.
- Finalize the Commission's Business Plan.
- Implement the Commission's Strategic Communications Plan.

Strategic Initiatives

4. Service Delivery

Service Delivery is challenging given the nature of the pension plan and the variety and geographic distribution of members and employers within the Plan.

The Commission reviews its service delivery practices in an integrated and collaborative manner and implements changes that support their fiduciary obligations to plan members.

The focus of the Commission's service delivery is on:

- Identification of member and employer needs and preferences;
- Research of best practices within the industry to identify opportunities that have the potential to reduce cost or improve service; and
- Analysis of the costs/benefits of potential delivery improvement opportunities.

Current practices and implemented changes are monitored to ensure their effectiveness in providing consistent levels of client service.

The contract for administrative services with PEBA establishes service standards for the tasks that PEBA performs for the Commission. Eight service standards are tracked, including termination option letters, pension estimates and payments.

Service Delivery Activities

Activities planned for 2006	Activities accomplished in 2006
• Prepare and review a report on member and employer needs. • Develop measurements for assessing service delivery performance and reporting processes. • Determine the overall delivery strategy for the Plan, with consideration of: - alternatives to current practices; - best industry practices; - costs/benefits of alternatives; and - change management issues. • PEBA will develop an electronic web-based system for employers to use when submitting employee remittance data. This will provide for more timely posting of contributions for employers who use the automated feature.	• The Commission delivered eight member overview presentations at five locations throughout Saskatchewan to a total of 191 members. Evaluation information collected at these presentations was used by the Commission as part of its initiative to determine member and employer preferences. • The Commission received a report from Mercer Human Resource Consulting regarding service delivery. The report included strategic and tactical recommendations for using communications to improve service delivery. • To improve services for members and employers, MEPP implemented the Employer Remittance Project. This is an electronic web-based system for employers to submit employee contribution information to MEPP administration. Information will be submitted in a new, secure MEPP Employer Web on the PEBA website.

Strategic Initiatives

A request for proposal (RFP) for the Employer Remittance Project was released in January, 2006 for the development and implementation of the system. The successful vendor programmed and submitted the modules for the project.

- The Commission obtained an inter-provincial comparison of pension administration costs.
- The Commission received quarterly administration reports from PEBA.
- The Commission reviewed and approved revised administrative service standards for PEBA. The revised standards represent a heightened level of expectations to the Commission.

Activities planned for 2007

In 2007, the Commission will implement service delivery initiatives by:

- Developing and communicating a policy on employer responsibilities under MEPP.
- Implementing the Employer Remittance system developed in 2006.
- Developing a stakeholder consultation process.
- Enhancing measurement and reporting on MEPP communications.

Service Standards for the period January 1 through December 31, 2006

Task	Number Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard (Days)
Termination Option Letters	1,184	919	78	(60) 30*
Pension Estimates	325	262	81	(30) 15*
Breakdown of Spousal Relationship Calculations	23	10	43	(45) 05*
Pensioner Deaths	144	116	81	(30) 10*
Active/Deferred Deaths	24	14	58	(30) 10*
Payments	727	526	72	10
Purchase of Service	44	29	66	30
Portability Transfer Value	14	7	50	30
Totals	2,485	1,883	76	

*Indicates that the standard was changed effective July 1, 2006. The count of the 'Number that Meet or Exceed the Standard' was based on the standard in effect at the time the task was completed.

Table 1.3

Strategic Initiatives

5. Plan Design

Over the coming years, MEPP can expect to face challenges as the plan population moves closer to retirement.

The Commission is committed to ensuring that the Plan responds to these challenges and meets the needs of its members and employers.

As part of the Commission's Strategic Plan, the Commission will focus on:

- Reviewing, assessing and defining the role the Commission plays in sound pension administration;
- Developing and implementing strategies to determine member and employer needs and preferences; and
- Identifying plan design responses to member and employer needs and preferences.

Plan Design Activities

Activities planned for 2006

- The Commission will develop a plan to conduct stakeholder consultations regarding plan design.

Activities accomplished in 2006

- The Commission retained Mercer Human Resource Consulting to develop a stakeholder consultation process. A draft stakeholder consultation process is being developed and will be presented to the Commission in 2007.
- MEPP legislation was changed in 2005 to allow members who are eligible to retire under the Plan rules to transfer a portion of their commuted value (CV) out of the Plan. They may transfer their CV to the Canada Revenue Agency (CRA) Maximum Transfer Amount out of the Plan and receive a temporary pension from the Plan on the portion of their CV over the CRA Maximum Transfer Amount.
- Design specifications for changes to the pension administration system were reviewed and approved for development.
- The Commission recommended administrative changes to the Act.

Activities planned for 2007

The Commission will continue developing the stakeholder consultation process begun in 2006.

Investments

Trustees

As trustees of the Municipal Employees' Pension Fund, the Municipal Employees' Pension Commission is responsible for safeguarding and investing the Fund's monies.

Income Allocation

For the year 2006, the Commission allocated interest to members' accounts at the rate of 11.97% per annum.

Investment Policy

The Commission has adopted an investment policy for the Plan in fulfilling its responsibility to safeguard and invest the Fund monies. This investment policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy
- Rate of return benchmarks for each investment manager and for the Fund;
- Permitted and prohibited investments;
- Monitoring and control responsibilities;
- Selecting and terminating investment managers; and
- Conflict of interest guidelines.

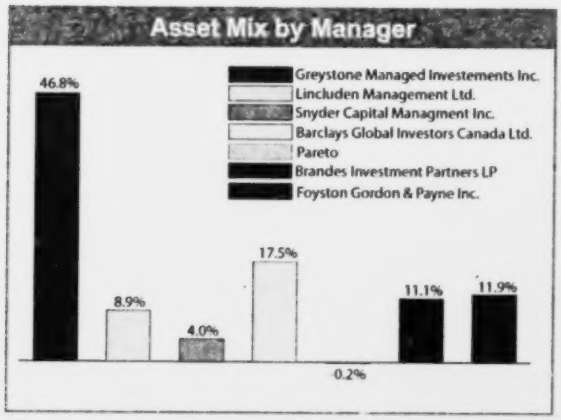


Figure 1.1

Investment Managers

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests within a specific mandate. Investment managers were paid a total of $3,237,100 in 2006.

Table 1.5 on page 20 shows the investment managers and their mandates.

Investment Consultant

The Plan's investment consultant is Hewitt Associates. The investment consultant monitors the activities of the investment managers and reports the results to the Commission. Hewitt Associates was paid $92,673 in 2006.

As of December 31, 2006 the investment managers invested the portions of the portfolio shown in *Figure 1.1*.

Custodian

The Commission retains RBC Dexia Investor Services as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Accounting for investment transactions.

RBC Dexia Investor Services was paid $128,227 in 2006.

Fees Paid for Investment Services in 2006	
Investment Managers (total)	$3,237,100
Investment Consultant	92,673
Custodian	128,227
Total	$3,458,000

Table 1.4

Figure 1.1 (left) shows the portion of the Fund's portfolio managed by the investment managers. *Table 1.4* (above) shows the total fees paid for investment services in 2006.

Investments

Investment Manager Mandates

Investment Manager	Mandate
Greystone Managed Investments Inc.	Balanced
Foyston, Gordon & Payne Inc.	Canadian Equities
Brandes Investment Partners, LP	Non-North American Equities
Barclays Global Investors Canada Ltd.	US Equities, Canadian Bonds
Snyder Capital Management, LP	US Equities
Lincluden Management Ltd.	Canadian Bonds
Pareto Investment Management Ltd.	Currency

Table 1.5

Table 1.5 (left) shows the mandates of the various investment managers.

Figure 1.2 (below) shows the benchmark asset mix by asset class. This is the combined mix of assets managed by the various investment managers.

Investment Objectives

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 3.5% above inflation, as measured by the Consumer Price Index (CPI). The CPI is a measure of the average change over time in the prices of goods and services that consumers purchase. The Commission monitors and assesses this goal over the long term (10 years or more).

To achieve this goal the Commission has established:

- A long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and
- An investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates.

Fund investment returns are primarily assessed over rolling four-year periods, but are measured over multiple time periods. The main objective for the Fund is to exceed the return of the benchmark portfolio, net of investment management fees.

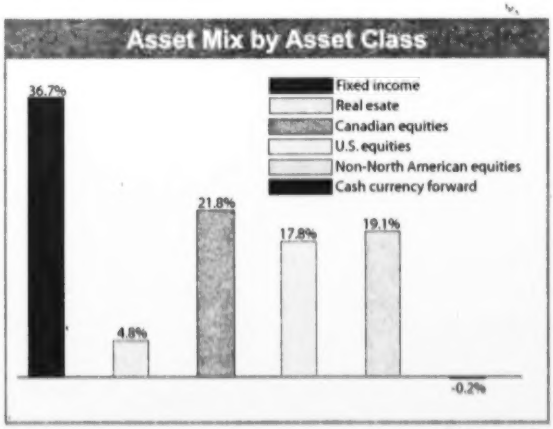


Figure 1.2

The Fund structure includes a balanced fund manager and a number of managers that specialize in various asset classes. The primary objective for the balanced fund manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class within the balanced fund.

The returns of specialist managers are regularly tested against the relevant asset class benchmarks. Other considerations in assessing manager performance are whether the manager's mandate is actively or passively managed and how the manager's returns compare with those of a peer group of managers.

Investments

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	15.0%	**21.0%**	30.0%
US Large Cap Equities	S&P 500 and S&P 500 Hedged	10.0%	**14.0%**	18.0%
US Small/Mid Cap Equities	Russell 2500	2.0%	**4.0%**	6.0%
Non-North American Equities	MSCI EAFE	14.0%	**18.0%**	22.0%
Canadian Bonds	SC Universe Bonds	22.0%	**36.0%**	54.0%
Real Estate	Investment Property Databank	3.0%	**5.0%**	8.0%
Short-term Investments	91 Day T-Bills	0.0%	**2.0%**	20.0%
			100.0%	

See Appendix 'A' for descriptions of market indicies.

Table 1.6

Fund Performance

Fund Investment Performance

The Commission reviews the performance of the MEPP fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund's investment performance as at December 31, 2006 is summarized in *Figure 1.3*. The Fund had a return of 13.6% for the year ended December 31, 2006, outperforming the benchmark by 0.7 percentage points. Over the past four years, the Fund had an annualized return of 13.0% exceeding the benchmark by 1.0 percentage point.

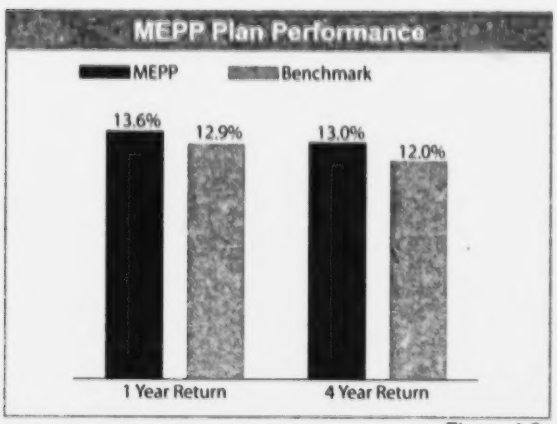


Figure 1.3

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark. *Table 1.7* on page 22 shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

The balanced mandate provided a return of 13.9% in the year ended December 31, 2006, outperforming the benchmark by 2.1 percentage points. Over four years the balanced mandate provided an annualized return of 12.4%, outperforming the benchmark by 1.5 percentage points. (*Figure 1.4*)

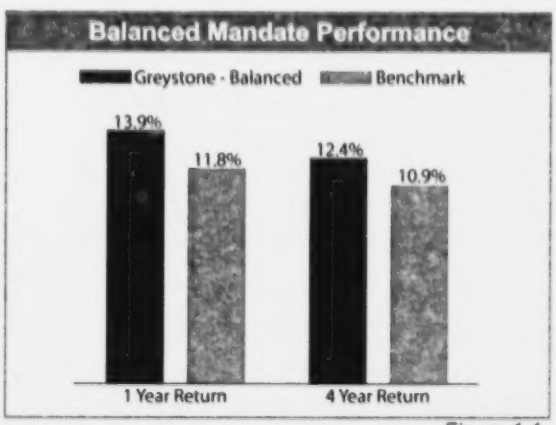


Figure 1.4

Investments

Balanced Mandate Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	16.0%	**22.0%**	34.0%
US Equities	S&P 500 & S&P 500 Hedged	5.0%	**8.0%**	12.0%
Non-North American Equities	MSCI EAFE	12.0%	**16.0%**	20.0%
Canadian Bonds	SC Universe Bonds	20.0%	**40.0%**	60.0%
Real Estate	Investment Property Databank	6.0%	**10.0%**	16.0%
Short-term Investments	91 Day T-Bills	0.0%	**4.0%**	35.0%
Mortgages		0.0%	**0.0%**	8.0%
			100.0%	

Table 1.7

Canadian Equity Managers

The Plan's Canadian equity managers include Greystone and Foyston Gordon & Payne Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10 - as is shown in *Figure 1.5*.

In the year ended December 31, 2006, Greystone's Canadian equity component returned 22.2%, outperforming the benchmark by 4.9 percentage points. Over four years, Greystone outperformed the benchmark by 1.9 percentage points with an annualized return of 22.4%.

In the year ended December 31, 2006, Foyston returned 14.7%, underperforming the benchmark by 2.6 percentage points. Foyston's four-year annualized return of 20.5% matched the benchmark.

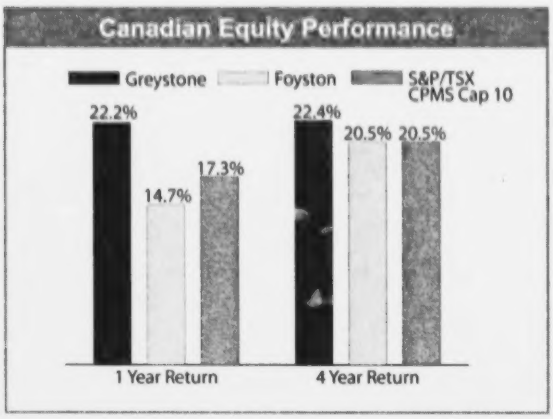


Figure 1.5

US Equity Managers

The Plan's US equity managers include Greystone, Barclays Global Investors Canada Ltd. (Barclays) and Snyder Capital Management LP. (Snyder).

Greystone is an active manager measured against the benchmark S&P 500. Managing US Large cap equities, Greystone returned 9.7% in the year ended December 31, 2006. This is an underperformance of 5.7 percentage points compared with the benchmark S&P 500. Greystone's four-year annualized return of 8.5% outperformed the benchmark by 2.2 percentage points. (*Figure 1.6*)

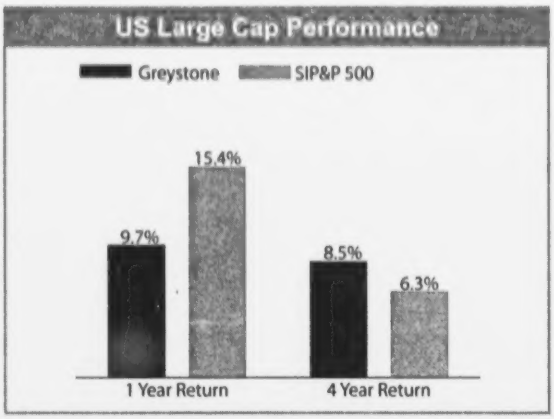


Figure 1.6

Investments

Barclays manages passive, hedged, U.S. equity investments and is measured against the hedged S&P 500 Index. Barclays matched the benchmark at 14.7% for the year ended December 31, 2006 and over four years matched the benchmark SIP&P 500 Hedged return of 14.8%. *(Figure 1.7)*

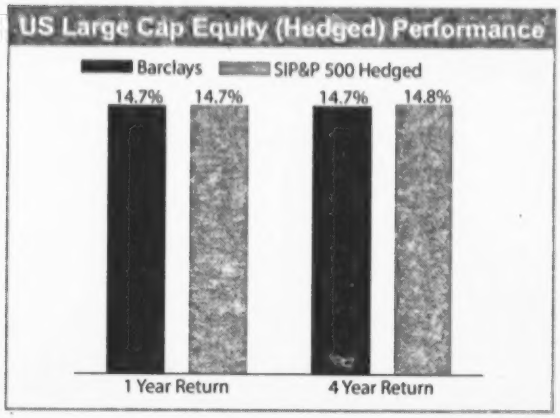


Figure 1.7

Snyder was new to the Plan in 2005. Four-year performance figures are not available for Snyder, which actively manages the small and mid-cap US equity portfolios.

Snyder provided a return of 13.3% for the year ended December 31, 2006. This return underperformed the Russell 2500 index by 2.4 percentage points. Snyder's performance is shown in *Figure 1.8*.

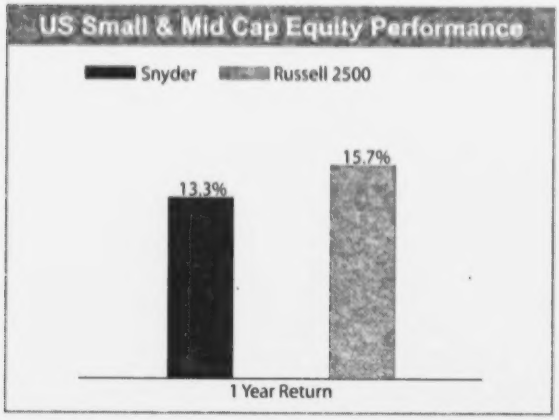


Figure 1.8

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone returned 27.2% in the year ended December 31, 2006, which outperformed the benchmark by 1.3 percentage points. Over four years Greystone provided a 14.3% return that was .9 percentage points lower than the benchmark for the same period.

Brandes provided a 29.0% return for the year ended December 31, 2006 that was 3.1 percentage points above the benchmark. The four-year annualized return of 19.8% was 4.6 percentage points higher than the four-year benchmark. *(Figure 1.9)*

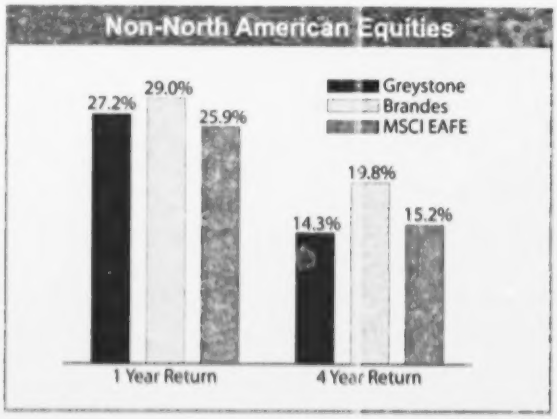


Figure 1.9

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of 21.7% for the year ended December 31, 2006. This return outperformed the estimated Investment Property Databank benchmark by 9.9 percentage points. Greystone's four-year, annualized return was 17.9%, which is 5.1 percentage points above the estimated benchmark return for the same period.
(*Figure 1.10 on page 24*)

Investments

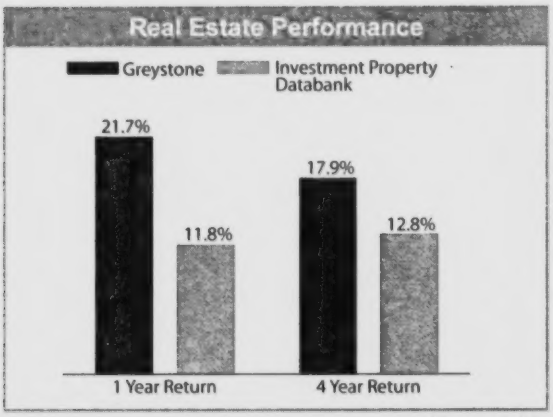


Figure 1.10

Bond Managers

The Plan's bond managers, Greystone, Lincluden Management Ltd. (Lincluden), and Barclays, are compared with the Scotia Capital Universe Bond Index (SC Universe) as shown in *Figure 1.11*.

For the year ended December 31, 2006, Greystone outperformed this benchmark by 0.6 percentage points, providing a return of 4.7%. Greystone's four-year annualized return of 6.6% was 0.5 percentage points above the benchmark.

Lincluden provided a one-year return of 4.4%, effective December 31, 2006. This return was 0.3 percentage points above the benchmark. Lincluden's four-year annualized return of 5.8% was 0.3 percentage points below the benchmark.

Barclays, the Plan's passive bond manager, matched the benchmark with a return of 4.1% for the year ended December 31, 2006. Barclay's four-year annualized return of 6.1% also matched the benchmark.

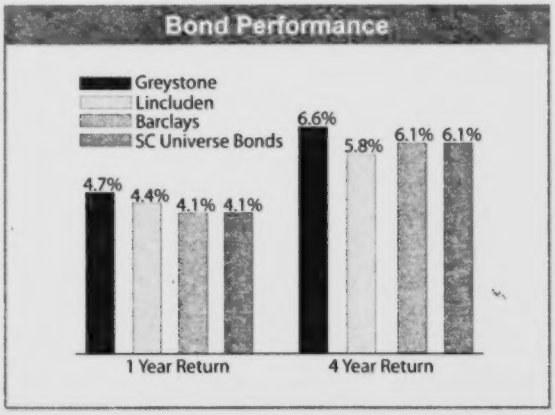


Figure 1.11

Currency Manager

Pareto is the Plan's currency manager. Pareto manages currency exposure for the Plan's Non-North American equity portfolios. This manager was new to the Plan in 2006; therefore, one-year and four-year performance figures are not available.

Investment Returns (%) by Asset Class at December 31, 2006

	Total Fund	Balanced Mandate	Canadian Equities	US Equities	Non-North American	Real Estate	Bonds	Currency (Hedged)
Annual Returns								
Return	13.6	13.9	18.5	13.4	28.2	21.7	4.5	n/a
Benchmark	12.9	11.8	17.3	15.0	25.9	11.8	4.1	n/a
Rolling 4-year Average Returns								
Return	13.0	12.4	21.9	13.2	17.4	17.9	6.3	n/a
Benchmark	12.0	10.9	20.5	12.4	15.2	12.8	6.1	n/a

Table 1.8

Plan Expenditures and Statistics

Cash Flow Forecast (Provision for Annuity Benefits)

Cash outflows are the amounts required to pay all annuity obligations. Cash flow forecasts have been determined using the long-term assumptions shown in *Table 1.9*.

The actuarial valuations prepared by Eckler Partners Ltd. also take into consideration mortality under the Plan, which is reflected in the cash flow forecasts shown in *Table 1.10*.

Mortality tables were updated in 2005 to reflect current mortality studies (Mortality Table UP94 projected to 2015).

Long-term Assumptions

Factor	Current Year Assumptions	Prior Year Assumptions
Interest Rate	6.0%	6.0%
Indexation of pensions	2.5%	2.5%

Table 1.9

Cash Flow Forecasts

Year	Cash Outflows (000s)
2007	$4,105
2008	3,939
2009	3,746
2010	3,561
2011	3,360
Total next 5 years	$18,711
Total 5 - 10 years	$13,785
Total 11 - 30 years	$18,046

Table 1.10

Supplemental Increases for Pensioners

Effective January 2006, indexing of 2% was applied to pensions earned on service prior to 1999. No ad hoc increases were applied.

Operating Expenditures

Table 1.11 (below) shows plan operating expenditures.

Administration Expenses (000s)

	2006		2005
	Budget	Actual	Actual
Administration costs	$2,855	$2,447	$2,244
Custodial fees	132	128	131
Asset consultant fees	88	93	84
Investment management fees			
Greystone Managed Investments Inc.	988	992	937
Foyston, Gordon & Payne Inc.	439	458	416
Brandes Investment Partners, LP	763	838	724
Barclays Global Investors Canada Ltd.	102	93	97
Snyder Capital Management, LP	260	485	248
Lincluden Management Ltd.	291	283	276
Pareto Investment Management Ltd.	0	88	0
Northwater Capital Management Inc.	0	0	10
	$5,918	$5,905	$5,167

Table 1.11

Plan Expenditures and Statistics

Pension Payments

In 2006, MEPP made monthly pension payments to 3,914 pensioners. MEPP paid approximately $36.6 million to pensioners in 2006.

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2006.

Retirement Comparisons

	2006	2005
Normal Retirement	76	81
Early Retirement	104	210
Postponed Retirement	4	10
Temporary Pension	11	0
Total	195	301

Table 1.12

Plan Membership Comparisons

	2006	2005
Active	11,819	11,656
Inactive	3,861	3,803
Pensioners	3,914	3,803

Table 1.13

MEPP Active Employers

	Number	(%)
Cities	7	1.0
Other	14	2.0
Regional Colleges	8	1.1
Regional Libraries	8	1.1
Rural Municipalities	296	41.3
School Divisions & Boards	25	3.5
Towns	145	20.2
Villages	214	29.8
Total Participants	717	100.0

Table 1.14

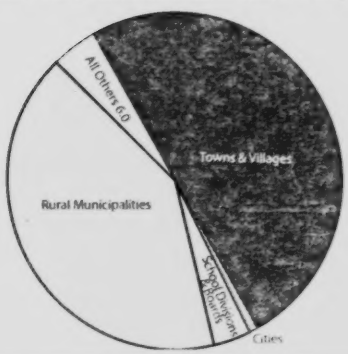
MEPP Active Members by Employer

	Number	(%)
Cities	1,023	8.5
Other	76	0.6
Regional Colleges	405	3.4
Regional Libraries	355	3.0
Rural Municipalities	1,120	9.3
School Divisions & Boards	7,589	63.1
Towns	1,052	8.7
Villages	410	3.4
Total Participants	12,030	100.0

The number of total participants in this table differs from the total active members in Table 1.13 because some members work for more than one employer.

Table1.15

MEPP Active Employers



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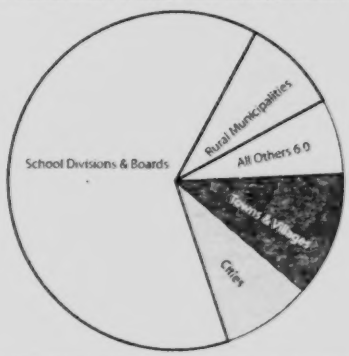

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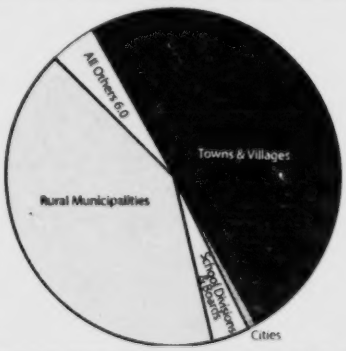

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MEPP Active Members by Employer

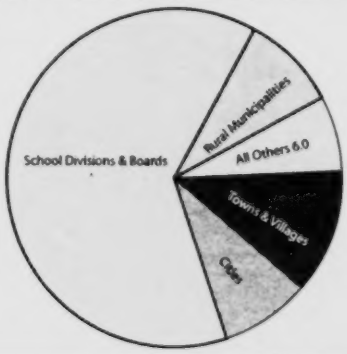

Figure 1.13

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Department of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events which require approval by management.

The financial statements have been audited by Meyers Norris Penny whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 2, 2007

Actuaries' Opinion

Eckler Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the provision for annuity benefits and accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2005. Eckler Ltd. was further retained to extrapolate the results of this valuation to December 31, 2006.

The valuation and extrapolation were based on:

- Membership data provided by the Commission as at December 31, 2005;
- Asset data, provided by the Commission as at December 31, 2006;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice.

John Corp

John Corp, FIA, FCIA
Eckler Ltd.

March 2, 2007

MUNICIPAL EMPLOYEES' PENSION COMMISSION

MUNICIPAL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2006 and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 2006 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Meyers Norris Penny
Chartered Accountants

Regina, Saskatchewan

March 2, 2007

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 1**
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS

AS AT DECEMBER 31

(in thousands)

	2006			2005
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	$ 22,607	$ 618	$ 23,225	$ 24,795
Bonds	370,089	10,110	380,199	361,451
Equities	396,297	10,826	407,123	373,189
Pooled funds	491,865	13,436	505,301	443,831
Mortgages	554	15	569	599
Real estate	64,863	1,772	66,635	47,223
	1,346,275	36,777	1,383,052	1,251,088
Accounts receivable				
Employees' contributions	1,239	-	1,239	1,091
Employers' contributions	1,239	-	1,239	1,091
Other receivables	367	10	377	376
Accrued investment income	4,532	124	4,656	3,818
	7,377	134	7,511	6,376
Due from General Revenue Fund (Note 4)	1,363	37	1,400	240
Cash	155	4	159	684
Total assets	1,355,170	36,952	1,392,122	1,258,388
LIABILITIES				
Accounts payable	1,162	32	1,194	1,048
Provision for annuity benefits (Statement 3, Note 8)	-	32,710	32,710	34,798
Total liabilities	1,162	32,742	33,904	35,846
NET ASSETS AVAILABLE FOR BENEFITS	1,354,008	4,210	1,358,218	1,222,542
Accrued pension benefits (Statement 3, Note 7)	1,151,904	-	1,151,904	1,087,954
SURPLUS	$ 202,104	$ 4,210	$ 206,314	$ 134,588

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 2**
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31

(in thousands)

	2006			2005
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income				
Interest	$ 22,174	$ 634	$ 22,808	$ 24,722
Pooled funds	27,437	784	28,221	15,935
Dividends	6,837	196	7,033	6,925
Mortgages	24	1	25	27
Real estate	2,767	79	2,846	2,811
	59,239	1,694	60,933	50,420
Change in market value of investments	103,616	2,963	106,579	86,341
Contributions				
Employee contributions	17,777	-	17,777	16,596
Employer contributions	17,609	-	17,609	16,540
Reciprocal transfers in	388	-	388	178
Arrears contributions and interest	51	-	51	35
	35,825	-	35,825	33,349
Change in provision for annuity benefits (Statement 3, Note 8)	-	2,088	2,088	2,198
Total increase in assets	198,680	6,745	205,425	172,308
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 6)	27,221	-	27,221	21,078
Defined benefit payments	32,342	-	32,342	29,430
Annuities	-	4,281	4,281	4,409
Administration costs (Note 9)	2,469	71	2,540	2,328
Investment and custodial fees (Note 9)	3,271	94	3,365	2,839
Total decrease in assets	65,303	4,446	69,749	60,084
INCREASE IN NET ASSETS	133,377	2,299	135,676	112,224
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,220,631	1,911	1,222,542	1,110,318
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$1,354,008	$4,210	$1,358,218	$1,222,542

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 3**
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS AND PROVISION FOR ANNUITY BENEFITS

YEAR ENDED DECEMBER 31

	(in thousands) 2006	2005
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$1,087,954	$ 998,861
Increase in accrued pension benefits		
Interest on accrued benefits	65,278	64,843
Benefits accrued	56,442	47,887
Transfer-in	439	213
Experience loss (Note 7)	1,354	-
Change in assumptions	-	44,574
	123,513	157,517
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	59,563	50,508
Experience gains	-	17,760
Transfer to provision for annuities	-	156
	59,563	68,424
ACCRUED PENSION BENEFITS, END OF YEAR (Note 7)	$1,151,904	$1,087,954
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$ 34,798	$ 36,996
Increase in provision for annuity benefits		
Interest on annuity benefits	1,973	2,092
New annuities purchased	-	156
Experience loss	220	-
	2,193	2,248
Decrease in provision for annuity benefits		
Annuities paid	4,281	4,409
Changes in assumptions	-	33
Experience gain	-	4
	4,281	4,446
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 8)	$ 32,710	$ 34,798

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2006

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is comprised of components including defined benefits, money accumulation benefits and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act) provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 (age 60 for police officers and firefighters), for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For service earned after 1989 but before 2001 and service earned after 2005, the number of years of contributory service during these periods times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. The annuity purchased from the Plan can be indexed or not. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;

- any excess employee funds transferred from the Defined Benefit Component pursuant to subsection 20(4) of *The Municipal Employees' Pension Act* up until December 31, 2000.

The Money Accumulation Component is included in the assets of the Defined Benefit Component and totals $15,269,037 (2005 - $14,101,485).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Those annuitants who purchased indexed annuities are indexed using the Saskatchewan Consumer Price Index each January. The Commission has guaranteed indexation on pensions with service accrued before 1999 equal to the lesser of the increase in the Saskatchewan Consumer Price Index during the previous calendar year or an annual rate of 2%.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

Valuation of Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investment transactions are recorded on the trade date. Interest income is accrued monthly and dividend income is recognized on the record date.

Short-term investments are valued at cost, which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine market value.

Foreign Currency

Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the trade date. Gains and losses arising on translation are included in the current period change in market value of the investments. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end.

Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as a revenue or expense item in that year's operations.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to use investment managers to invest cash flows from contributions, maturing debentures, and investment returns into assets such as Canadian equities, pooled funds, money market securities and bonds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Interest rate risk is managed by investing in fixed income investments with varying duration.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for a counterparty to fail or for a counterparty to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe securities below are based on a recognized credit rating service.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the value of investments. The Plan manages its foreign currency risk by limiting the investment in foreign funds, and through the use of derivatives (foreign exchange forward contracts).

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Board's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Objectives.

e) Real Estate Risk

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Short Term Investments

These investments are comprised of treasury bills, notes and commercial paper. Short-term investments held as of December 31, 2006 had effective interest rates of 1.9% to 5.5% (2005 - 1.9% to 4.1%) and an average term to maturity of 91 days (2005 - 111 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 13.8% (2005 – 13.7%) of the total Plan's short-term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2006, the Plan held 3.1% (2005 – 4.4%) of its portfolio in BBB bonds.

The Plan's investment in bonds are described below.

	2006 (in thousands)						**2005** (in thousands)		
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market
Under 5	$ 128,671	$ 11,000	$ 53,700	$ 193,371	3.55 - 7.85%	4.5%	$182,144	2.75-9.00%	4.8%
5 to 10	24,845	21,013	24,807	70,665	3.75 – 11.20%	4.8%	81,866	3.75-11.20%	4.0%
Over 10	43,320	46,990	25,853	116,163	4.45 – 9.90%	4.8%	97,441	4.00-9.90%	5.0%
Market Value	$ 196,836	$ 79,003	$ 104,360	$ 380,199			$361,451		

Included in the above totals is $16,453,125 in US bonds. The Plan is using US forward contracts to hedge this foreign currency exposure.

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 46% of the fund to be invested in foreign equities, including those held in pooled funds. As at December 31, 2006 the Plan held 7.7% (2005 – 7.9%) in foreign equities and 29.2% (2005 – 27.7%) in pooled foreign equity funds. Foreign equities are comprised of 48.4% US equities and 51.6% Non-North American equities.

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 1.8% (2005 – 2.0%).

The Plan has entered into foreign exchange forwards contracts to manage some of its foreign currency exposure in equities. Foreign exchange forwards contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a currency risk management program to manage the currency exposures inherent in the international equity investments of the Plan, as well as provide protection of the Canadian value of the portfolio. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

	Market Value	Notional Value*
Canadian Dollar	$ 53,936,110	$ 53,936,110
Swiss Franc	(3,753,767)	(3,474,476)
European Euro	(15,830,278)	(13,960,145)
United Kingdom Pound	(10,443,633)	(9,561,763)
Hong Kong Dollar	(2,411,811)	(2,345,459)
Japanese Yen	(24,743,906)	(24,594,267)
Net loss	$ (3,247,285)	$ -

The Plan also uses a currency absolute return strategy to maximize the capital appreciation of a notional portfolio. The portfolio is designed to add value through the management of cross currency exposures between major currencies. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency absolute return strategy program:

	Market Value	Notional Value*
European Euro	$ 8,082,891	$ 8,082,891
United States Dollar	(8,069,503)	(8,082,891)
Net gain	$ 13,388	$ -
European Euro	$ 9,113,913	$ 9,113,913
Japen Yen	(8,793,004)	(9,113,913)
Net gain	$ 320,909	$ -
Australian Dollar	$ 689,219	$ 689,219
United States Dollar	(687,556)	(689,219)
Net gain	$ 1,663	$ -
United States Dollar	$ (412,997)	$ (412,997)
Japen Yen	349,062	(412,997)
Net loss	$ (63,935)	$ -

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the financial statements.

Based on the current rate of exchange as of December 31, 2006, the Plan is in a net loss position of $2,975,260. The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2006 have a valuation date of April 26, 2007.

Pooled Funds

For liquidity reasons, the investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands) 2006	2005	% of Total Units Outstanding 2006	2005	Market Value (in thousands) 2006	2005
US Equity						
Barclays Hedged Pension US Equity Index Fund	11,949	11,952	13.63%	19.66%	$140,424	$122,498
Global Equity						
Greystone EAFE Plus Fund	9,140	10,345	6.88%	8.21%	110,364	104,526
Brandes Canada International Equity Unit Trust	8,151	7,442	13.18%	12.69%	153,133	119,397
Fixed Income Funds						
Barclays Universe Bond Index Class A Fund	5,187	5,189	3.17%	2.71%	101,380	97,410
					$505,301	$443,831

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 5.5% (2005 - 5.5%) with an average remaining term to maturity of 1.7 years (2005 – 2.7 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. totaling $2,739,760 (2005 - $2,148,668). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from this holding totaled $397,654 (2005 - $472,667).

The Plan holds $7,675,527 in the Greystone Real Estate pooled fund. This represents 2.68% of the total outstanding units.

4. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2006 was 4.0% (2005 - 2.6%).

5. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2006 the increase in market value not yet allocated to members is $41,491,539 (2005 – $37,532,658).

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2006 an interest rate of 12.0% (2005 – 10.7%) was approved by the Commission for the Money Accumulation Component and 12.0% (2005 – 10.7%) for the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

6. Transfers, Refunds and Benefit Payments

	(in thousands) 2006	2005
Transfers to other retirement plans	$ 133	$ 136
Transfer to other retirement vehicles	16,754	13,601
Lump sum payments to estates	1,368	1,381
Payments in lieu of annuities	418	743
Withdrawals with interest	8,548	5,217
	$27,221	$21,078

7. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation was performed as at December 31, 2005 by Eckler Ltd. and they extrapolated the results of that valuation to December 31, 2006. In the actuarial valuation as at December 31, 2005 (completed in October 2006) it was determined that the value of the accrued pension benefits as at December 31, 2004 had been understated by $6.1 million. This amount together with interest has been offset by experience gains so that the net experience loss recorded in 2006 is $1.4 million.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2006	2005
Interest rate	6.0%	6.0%
Salary escalation rate	3.5%	3.5%
Inflation	2.5%	2.5%
Indexation of pensions	2% for pre-1999 benefits, 50% of inflation for post-1998 benefits	2% for pre-1999 benefits, 50% of inflation for post-1998 benefits
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 3.5%, interest rate 6.0% and pension indexing 1.25%. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability					
	Salary		Interest Rate		Pension Indexing (post 1998)	
Assumptions	2.5%	4.5%	5.0%	7.0%	0.25%	2.25%
(Decrease) Increase	(3.4%)	3.9%	16.9%	(12.9%)	(3.2%)	3.9%

8. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation of annuities as at December 31, 2005 and extrapolated the results of that valuation to December 31, 2006.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2006	2005
Interest rate	6.0%	6.0%
Indexation of pensions	2.5%	2.5%
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	1.5%	3.5%
(Decrease) Increase	6.9%	N/A	(0.2%)	0.2%

In future, increases on non-indexed annuities will be granted to the extent that smoothed investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of annuities and the net affect on the liability would be zero. Excess interest increases for non-indexed annuities in any year will not be greater then the increase in the Consumer Price Index for the previous year.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $18.7 million, in the next 10 years $32.5 million and in the next 30 years $50.5 million.

9. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands of dollars)

	2006		2005	
	Budget	Actual	Budget	Actual
	(unaudited)		(unaudited)	
Administration costs	2,943	$2,540	$2,699	$2,328
Custodial fees	132	128	128	131
Investment management fees	2,843	3,237	2,526	2,708
	$5,918	$5,905	$5,353	$5,167

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $4,248,801 (2005 - $4,290,342) in Province of Saskatchewan Bonds. Investment income on these bonds, including the current period change in the market value of investments, was $168,643 (2005 - $596,072).

The Plan has an accounts payable balance as at December 31, 2006 of $167,516 (2005 - $194,587) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2006	Rolling Four Year Average Annual Return
Plan's actual rate of return (a)	13.6%	13.0%
Target rate of return (b)	12.9%	12.0%

(a) The annual returns are before deducting investment expenses.

(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 U.S. Stock Index, Russell 2500 index, Morgan Stanley, Europe, Australia and Far East Index, Scotia Capital Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

12. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, cannot be readily determined; information about these liabilities is provided in Notes 7 and 8.

Appendix 'A'

Description of Market Indicies

S&P/TSX Composite
Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 per cent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10
S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The float capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

S&P 500
Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE
Morgan Stanley Capital International Europe, Australia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This indes aims to capture 85% of the free float adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

SC UBI
Scotia Capital Markets Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 900 marketable Canadian bonds with an average term of 9 years and an average duration of 5.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI
The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

91-Day T-Bills
Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI
Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500
The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconsitituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.